

Message Text

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SUBJECT: PLATT'S OILGRAM ARTICLE

REF: OECD PARIS 04502

1. AS REQUESTED IN REFTTEL, FULL TEXT OF ARTICLE IN
FEBRUARY 11 PLATT'S OILGRAM. BEGIN TEXT:

FEA PAPER SEES OPEC HIKING CRUDE TO \$16/BBL IN FEW YEARS
IF CONSUMERS FAIL TO REACT.

WASHINGTON 2/10 - KEY PRODUCING MEMBERS OF OPEC WILL BE
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FLEXIBLE ENOUGH TO WITHSTAND BOTH OPEC'S INTERNAL

POLITICAL AND ECONOMIC PRESSURES AND THOSE OF THE INDUSTRIALIZED CONSUMING WORLD AND, CONSEQUENTLY, HELP RETAIN OPEC'S HOLD ON WORLD OIL PRICES FOR THE NEXT 15 YEARS, ACCORDING TO THE FEDERAL ENERGY ADMINISTRATION.

IN A FIRST-DRAFT REPORT DATED JANUARY 2, NOW UNDERGOING INTERAGENCY REVIEW AND INITIALLY PLANNED FOR INCLUSION IN THE ADMINISTRATION'S PROJECT INDEPENDENCE UPDATE, FEA'S INTERNATIONAL AFFAIRS OFFICE SAYS THERE'S NO REAL LIKELIHOOD OPEC PRICES WILL DROP.

IT CONCLUDES THAT IF CONSUMING COUNTRIES' LACK OF COORDINATED RESPONSE TO PRICES CONTINUES, A PRICE HIKE TO \$16/BBL "OR HIGHER" CAN BE EXPECTED IN THE NEXT FEW YEARS.

WHEN TOLD OF OILGRAM NEWS' ACCESS TO THIS DRAFT, AN FEA SPOKESMAN SAID THAT A DECISION ALREADY HAD BEEN MADE NOT TO INCLUDE IT IN THE ADMINISTRATION'S FORTHCOMING PROJECT INDEPENDENCE UPDATE (ONS 2/6).

GIVEN COORDINATED AGGRESSIVE CONSUMER NATION ACTION, THE PRICE "COULD STABILIZE ... BETWEEN \$12 AND \$16/BBL," THE REPORT SAYS.

STRESSING THE DIFFICULTY IN MAKING INFORMED JUDGMENTS ON "LIKELY POLITICAL ACTIONS" IN THE NEXT 15 YEARS BY EUROPE, CANADA, JAPAN OR OPEC MEMBERS, THE REPORT NONETHELESS OUTLINES TRENDS AND CHARTS PLAUSIBLE POLICY SCENARIOS AFFECTING OPEC OIL DEMAND, SUPPLY AND PRICE.

THE REPORT IDENTIFIES THREE OVER-ALL POLITICAL TRENDS HAVING A "FUNDAMENTAL EFFECT" ON INTERNATIONAL OIL TRADE IN THE NEXT TWO DECADES:

-- CONTINUING DIALOGUE BETWEEN CONSUMERS AND PRODUCERS ON ACCESS TO RAW MATERIALS "COULD MEAN OUR (U.S.) ASSESSMENT OF FUTURE OIL AVAILABILITY MAY COME TO CONCENTRATE MORE ON THE KEY PRODUCERS AND LESS ON THE CONCEPT OF A CARTEL."

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-- CONSUMING COUNTRIES' STRATEGIC RESERVES "SHOULD EVENTUALLY EASE CONSTRAINTS PRESENTLY FELT BY MANY STATES IN THEIR DEALINGS WITH PRODUCERS...AND WILL BE DESIRABLE SO LONG AS SIGNIFICANT LEVELS OF IMPORT DEPENDENCE ARE NECESSARY."

-- U.S., WHICH ACCOUNTS FOR 20 OF CURRENT OPEC MARKETS, IS MOVING TOWARDS A POLITICAL DECISION TO "MOBILIZE

TECHNICAL, FINANCIAL AND MANAGERIAL RESOURCES TO LESSEN SHARPLY AMERICAN VULNERABILITY TO FOREIGN SUPPLY INTERRUPTIONS." LESS-DEVELOPED COUNTRIES' OIL EXPORTS IN THE NEXT 10-15 YEARS OFFER POTENTIALLY SIGNIFICANT LEVELS OF SECURE AND DIVERSIFIED SUPPLIES FOR THE U.S.

OPEC SEEN RAISING PRICES

GIVEN THESE TRENDS, CONSUMING COUNTRIES (INCLUDING THE U.S.) THAT COMMAND 57 OF THE WORLD'S ENERGY SUPPLY, 26.6 OF THAT FROM OPEC, COULD COLLECTIVELY CUT OPEC SUPPLIES BY VARIOUS AMOUNTS UNDER DIFFERENT POLICY SCENARIOS:

-UNDER A BUSINESS-AS-USUAL SCENARIO, OPEC OIL DEMAND WOULD BE REDUCED TO 34.5 MILLION B/D BY 1985.

-UNDER A CONSERVATION SCENARIO, WHICH INCLUDES INCREASED INDIGENOUS SUPPLIES AND MODERATE DOMESTIC TAXES ON FUEL USE, OPEC OIL DEMAND WOULD BE REDUCED TO 26.6 MILLION B/D BY 1985.

-UNDER A MAXIMUM CONSERVATION SCENARIO, WHICH INCLUDES DRAMATIC INCREASES IN INDIGENOUS SUPPLIES AND STRINGENT DOMESTIC TAXES ON FUEL USE, OPEC OIL DEMAND WOULD BE REDUCED TO 24.7 MILLION B/D.

COHESIVE OPEC RESPONSE IN ANTICIPATION OF THE THREE DEMAND SCENARIOS MIGHT BE TO STABILIZE PRICES AT OR AROUND \$12/BBL TO AVOID "PROVOKING" THE STRICTER CONSERVATION SCENARIOS THAT WOULD SUBSTANTIALLY DIMINISH OPEC REVENUE EXPECTATIONS.

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TABLE BELOW SHOWS REVENUE OPEC EXPECTATIONS IN 1980 AND 1985, GIVEN A \$12/BBL AND \$16/BBL PRICE AND TWO CONSUMING-COUNTRY POLICY OPTIONS:

.....OPEC REVENUES (BILLIONS OF \$).....

.....1980 1985

..... \$12/BBL \$16/BBL \$12/BBL \$16/BBL

BUSINESS AS USUAL 112.5 133.0 145.0 158.4

MAXIMUM CONSERVATION 90.2 94.5 103.7 104.7

IF PROJECTIONS OF AN OPEC EXPORTABLE PRODUCTION DECLINE TO 43.2 MILLION B/D IN 1985 FROM 43.8 MILLION B/D IN 1980 ARE BORN OUT, THE REPORT SAYS, OPEC COULD STAND TO WIN BY INCREASING ITS PRICE TO \$16/BBL EVEN IF DEMAND IS

CONSTRICTED BY A MAXIMUM CONSERVATION POLICY. REVENUES WOULD DECLINE ONLY BY 3 WHILE THE AMOUNT OF RECOVERABLE RESERVES CONSERVED WOULD BE 54 BILLION BBL.

THE REPORT CONCLUDES THAT UNDER A BUSINESS-AS-USUAL DEMAND CONSTRAINT, GIVEN A \$16/BBL PRICE, MAJOR "SWING" PRODUCERS--SAUDI ARABIA, IRAN, KUWAIT, THE UAE, LIBYA AND QATAR--WOULD CONTINUE TO ALLOW MAXIMUM PRODUCTION BY PRODUCERS WITH NEAR-TERM EXHAUSTIBLE RESERVES -- ALGERIA, NIGERIA, ECUADOR, GABON, INDONESIA AND VENEZUELA.

THESE PRODUCERS MIGHT SHUT-IN SOME PRODUCTION, UNDER A MAXIMUM CONSERVATION DEMAND CONSTRAINT, GIVEN THE \$16/BBL PRICE, THE REPORT SAYS, BUT ONLY FOR SHORT PERIODS OF TIME.

OVER-ALL, THE REPORT CONCLUDES THAT A \$16/BBL PRICE WILL BE "PREFERABLE" FOR OPEC OVER THE NEXT 15 YEARS REGARDLESS OF CONSUMING COUNTRIES CONSERVATION POLICIES; ALTHOUGH MAXIMUM CONSTRAINT WOULD REDUCE KEY PRODUCERS' REVENUE, IT ALSO WOULD CONSERVE RESERVES WHOSE VALUE COULD INCREASE AFTER TIME.

THE REPORT'S ANALYSIS OF INDIVIDUAL KEY PRODUCERS' BEHAVIOR OVER THE NEXT 15 YEARS IS:

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-SAUDI ARABIA: EXCESS OIL PRODUCTION CAPACITY WILL BE MAINTAINED AS A BARGAINING WEAPON BOTH WITH OTHER OPEC COUNTRIES AND THE CONSUMERS. SAUDI ARABIA WILL INSIST ON MAINTAINING REVENUES SUFFICIENT TO MEET DEVELOPMENT OBJECTIVES TO INCREASE SUFFICIENTLY TO JEOPARDIZE SAUDI REVENUES. UNDER THE HIGH-DEMAND SCENARIO, FOREIGN INVESTMENT ASSISTANCE AND GUARANTEES "MAY BE NEEDED" IF SAUDI PRODUCTION IS TO MEET DEMAND.

-IRAN: RESERVE LIMITS AND DECLINING PRODUCTION RATES ARE LIKELY BEFORE 1985, CAUSING A CONTINUATION OF IRANIAN AGITATION FOR HIGHER PRICES EVEN IF THIS MEANS LOWER PRODUCTION RATES. IRAN WILL AUGMENT OIL REVENUES WITH OTHER REVENUE SOURCES, BUT THE TIME THIS WILL TAKE IN LIGHT OF PRESSING INTERNAL NEEDS, COULD TEMPER THE IRANIAN PUSH FOR HIGH PRICES IF DEMAND FALLS CONSIDERABLY.

-IRAQ: BECAUSE OF IRAQ'S STRONG UNDEVELOPED RESOURCE POSITION AND ITS NEED FOR REVENUES, OTHER PRODUCERS WILL ACCOMMODATE IRAQ'S MAVERICK NEEDS "WITHIN REASONABLE LIMITS FOR THE NEXT SEVERAL YEARS. ONCE IRAQ'S MARKET POSITION IS ESTABLISHED, REVENUE ABSORPTION PROBLEMS

AND ITS DESIRE TO CONSERVE RESOURCES COULD FORCE EVEN
IRAQ TO SHIFT PREFERENCES FROM VOLUME TO HIGH PRICES."

-LIBYA: FACING A LIMIT IN PRODUCTION CAPACITY BY
1985, IF PRESENT DEMAND CONTINUES, LIBYA WILL CONTINUE
TO SUPPORT MODERATE PRODUCTION LEVELS SUFFICIENT TO MEET
ITS CURRENT SPENDING NEEDS.

-KUWAIT, UAE, QATAR: WILLING TO FOLLOW THE SAUDI
LEAD IF DEMAND IS REDUCED, THESE COUNTRIES WILL OTHERWISE
PRODUCE AT OR NEAR 1975 LEVELS THOROUGH 1980 -- BUT WILL
INCREASE PRODUCTION WITH INCREASED DEMAND. KATHLEEN
JOHNSON. END TEXT. KISSINGER

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